600

Income Security

Budget function 600 covers federal income-security programs that provide cash or in-kind benefits to individuals. Some of those benefits (such as food stamps, Supplemental Security Income, Temporary Assistance for Needy Families, and the earned income tax credit) are means-tested, whereas others (such as unemployment compensation and Civil Service Retirement and Disability payments) do not depend on a person's income or assets. CBO estimates that in 2001, federal outlays for function 600 will total $257 billion, including $44 billion in discretionary outlays. In the early 1990s, discretionary spending for function 600 grew significantly; since then, annual growth has been much slower.

Federal Spending, Fiscal Years 1990-2001 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Estimate 2001
Budget Authority (Discretionary)	18.9	29.6	30.4	31.9	33.1	27.5	27.8	22.7	29.7	32.7	30.0	39.4
Outlays												
Discretionary	23.5	25.8	28.2	31.3	35.7	39.2	38.0	39.4	40.9	40.0	41.6	44.0
Mandatory	123.6	144.6	168.8	175.9	178.4	181.3	188.0	191.5	192.3	197.8	206.3	213.0
Total	147.1	170.3	197.0	207.3	214.1	220.5	226.0	230.9	233.2	237.7	247.9	257.0
Memorandum:												
Annual Percentage Change in Discretionary Outlays		9.5	9.6	11.1	13.9	9.8	-3.1	3.8	3.7	-2.3	4.1	5.7

600-01 End the Trade Adjustment Assistance Program

	Savings (Millions of dollars) Budget Authority	Outlays
2002	275	170
2003	395	355
2004	395	395
2005	405	405
2006	410	410
2002-2006	1,880	1,735
2002-2011	4,065	3,920

SPENDING CATEGORY:

Mandatory

RELATED CBO PUBLICATION:

Causes and Consequences of the Trade Deficit: An Overview (Memorandum), March 2000.

The Trade Adjustment Assistance (TAA) program offers income-replacement benefits, training, and related services to workers who are unemployed as a result of import competition. To obtain assistance, such workers must petition the Secretary of Labor for certification and then meet other eligibility requirements. Cash benefits are available to certified workers who are receiving training but only after their unemployment insurance benefits are exhausted.

Ending the TAA program by issuing no new certifications in 2002 and thereafter would reduce federal outlays by about $170 million in 2002 and by $3.9 billion during the 2002-2011 period. Affected workers could apply for benefits under the Workforce Investment Act of 1998 (WIA), which authorizes a broad range of employment and training services for displaced workers regardless of the cause of their job loss. (Because funding for WIA is limited, however, TAA cash benefits alone could be eliminated, and the remaining TAA funds for training and related services could be shifted to WIA. Doing that would reduce the total savings during the 10-year period by about one-third.)

The rationale for this option is to secure under federal programs more equivalent treatment of workers who are permanently displaced as a result of changing economic conditions. Since WIA provides cash benefits only under limited circumstances, workers who lose their job because of foreign competition are now treated more generously than workers who are displaced for other reasons.

Eliminating TAA cash benefits would, however, cause economic hardship for some of the long-term unemployed who would have received them. In addition, TAA now compensates some of the workers adversely affected by changes in trade policy. Some people argue, therefore, that eliminating TAA benefits could lessen political support for free trade, although such trade helps the overall economy.

600-02 End the Expansion of Programs to Build New Housing Units for Elderly and Disabled People

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	896	0
2003	896	10
2004	896	80
2005	896	190
2006	896	325
2002-2006	4,480	605
2002-2011	8,960	4,025
Relative to Inflated Appropriations		
2002	915	0
2003	935	10
2004	950	85
2005	970	195
2006	990	335
2002-2006	4,760	625
2002-2011	9,990	4,325

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

370-09

Since the early 1980s, federal programs to provide rental subsidies for low-income people have shifted their approach sharply, from constructing low-income housing to using less costly existing housing subsidized with vouchers and certificates. Two construction programs under which new commitments are still being made are the Section 202 and Section 811 programs for elderly and disabled people, respectively. For 2001, $896 million was appropriated for those programs to construct new units and subsidize their operating costs. (The appropriations allow as much as $54 million of those funds to be used for vouchers for disabled people.)

Over the period of 2002 to 2011, eliminating funding for additional new units under those programs would reduce outlays by $4 billion relative to current appropriations and $4.3 billion relative to current appropriations adjusted for inflation. Initially, savings in outlays would be substantially smaller than savings in budget authority because of the long lags involved in building new projects and thus in spending authorized funds.

Proponents of this option see little need to subsidize any new construction. The overwhelming housing problem today, they argue, is not a shortage of rental units but the inability of low-income households to afford the units that exist. For example, average overall annual vacancy rates have consistently exceeded 7 percent since 1986. In any event, if elderly and disabled people need more housing assistance, it could be provided less expensively through vouchers or certificates.

Opponents of this option argue that national statistics on the supply of rental units mask local shortages of certain types of units. In particular, many households with an elderly or disabled person need housing that can provide special social and physical services that are not generally available. People who support subsidized construction of units for low-income elderly and disabled households also maintain that the high cost of building such units requires the certainty of a guaranteed stream of income that only project-based subsidies can provide.

600-03 Increase Payments by Tenants in Federally Assisted Housing

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	355	175
2003	725	550
2004	1,125	950
2005	1,555	1,375
2006	1,925	1,825
2002-2006	5,685	4,875
2002-2011	16,845	16,030
Relative to Inflated Appropriations		
2002	355	175
2003	725	550
2004	1,125	950
2005	1,555	1,375
2006	1,925	1,825
2002-2006	5,685	4,875
2002-2011	16,845	16,030

SPENDING CATEGORY:

Discretionary

Most lower-income renters who receive federal rental assistance are aided through various Section 8 programs or the public housing program, all of which are administered by the Department of Housing and Urban Development (HUD). Those programs usually pay the difference between 30 percent of a household's income (after certain adjustments) and either the actual cost of the dwelling or a payment standard. In 2000, the average federal expenditure per assisted household for all of HUD's rental housing programs combined was roughly $5,000. That amount includes both housing subsidies and fees paid to administering agencies.

This option would increase tenants' rent contributions over a five-year period from 30 percent to 35 percent of their adjusted income. Budgetary savings would total $16 billion over the 2002-2011 period, including $11.8 billion for Section 8 programs and $4.2 billion for public housing. (Those estimates are based on the assumption that the Congress will provide budget authority to extend the life of all commitments for housing aid that are due to expire during the 2002-2011 period.) To diminish or eliminate the impact of that change on assisted tenants, state governments—which currently contribute no funds to the federal rental assistance programs—could be encouraged to make up some or all of the decreased federal support.

One rationale for directly involving states in housing assistance is that those programs generate substantial local benefits, such as improved quality of the housing stock. If all states paid 5 percent of the adjusted income of those tenants receiving assistance, housing costs for assisted families would not rise. Moreover, since eligibility for housing aid is determined by each area's median income, tying states' contributions to renters' incomes would ensure that lower-income states would pay less per assisted family than would higher-income states.

Because not all states might make up the reduction in federal assistance, housing costs could increase for some current recipients of aid, who generally have very low income. This option could also cause some relatively high-income renters in assisted housing projects to move to unassisted housing because it might now cost less to rent. As those tenants were replaced by new ones with lower income, the concentration of families with very low income in those projects would increase. In turn, the savings from this option could decrease somewhat.

600-04 Reduce Rent Subsidies to Certain One-Person Households

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	35	20
2003	70	55
2004	105	90
2005	140	120
2006	170	155
2002-2006	520	440
2002-2011	1,850	1,705
Relative to Inflated Appropriations		
2002	35	20
2003	70	55
2004	105	90
2005	140	120
2006	170	155
2002-2006	520	440
2002-2011	1,850	1,705

SPENDING CATEGORY:

Discretionary

Generally, recipients of federal housing aid live in housing units that are specifically designated for use by federally assisted tenants, or they rent units of their own choosing in the private rental market. Support for that second type of aid comes in the form of Section 8 certificates and vouchers, which generally reduce what recipients spend for housing to 30 percent of their income. Starting in 2000, the certificate and voucher programs were combined into one program that pays the difference between 30 percent of a tenant's income and either the lesser of the tenant's actual housing cost or a payment standard determined by local rental levels.

The payment standard and the amount of the federal subsidy both vary according to the type of unit in which the tenant resides. One-person households may generally live in apartments with up to one bedroom, whereas larger households may reside in larger units. Linking the rent subsidy for a newly assisted one-person household (or a currently assisted household that moves to another housing unit) to the cost of an efficiency apartment rather than a one-bedroom apartment would save $20 million in federal outlays in 2002 and $1.7 billion over the 2002-2011 period.

An argument in favor of this option is that an efficiency unit would provide adequate living space for a person who lived alone. An argument against the option is that individuals in some areas might have difficulty finding suitable housing under this new rule and as a result might have to spend more than 30 percent of their income to pay for available housing.

600-05 Reduce Funding for Employment and Training in the Food Stamp Program

	Savings (Millions of dollars) Budget Authority	Outlays
2002	75	0
2003	80	10
2004	80	15
2005	85	25
2006	85	35
2002-2006	405	85
2002-2011	875	375

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-06

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) established a new work and training requirement for certain recipients of food stamps. The act limited Food Stamp eligibility to a maximum of three months in any 36-month period for adults not engaged in work or job training who are able-bodied, are between the ages of 18 and 50, and have no dependent children. Under PRWORA, the requirement applies unless the Secretary of Agriculture waives it for a locale because of a high level of unemployment or insufficient job opportunities.

The Balanced Budget Act of 1997 (BBA) provided certain exemptions from the PRWORA work/training requirement as well as $600 million to fund new work/training program slots. However, subsequent legislation reduced work/training funds by $100 million in 1999, $45 million in 2000, and $25 million in 2001.

This option would eliminate the remaining funds for work/training slots under the BBA. It would also provide additional savings in the Food Stamp program from not paying benefits to the people who would have occupied the canceled slots. Those changes would reduce outlays by about $375 million over the 2002-2011 period.

An argument for eliminating the remaining work/training funds provided under the BBA is that states have not been using all of the funds allotted to them. States receive basic federal funding for employment and training of Food Stamp recipients under the Food Stamps Act of 1985, and those funds can be used for able-bodied adults without dependent children. People facing the work/training requirement under PRWORA can also apply to other programs that operate independently of the Food Stamp program. States with economically distressed areas, which might have fewer alternative job opportunities in the private sector than more prosperous locales, can also apply for waivers from the PRWORA requirement.

An argument against this option is that the unspent funds are not necessarily evidence of a lack of need. Some states had to develop the work/training programs that the BBA authorizes. Such programs must be targeted primarily toward able-bodied adults without dependent children and may not simply substitute for state-funded programs. To ensure that BBA funds are spent on new work/training efforts, the law requires states to maintain their 1996 spending levels for work/training programs in order to collect the BBA funds. Another argument for maintaining the funds available under the BBA is that they offer some flexibility because they do not have to be spent in a particular fiscal year. The funds may be carried over and reallocated by the Secretary of Agriculture among the states on the basis of year-to-year changes in the distribution of covered individuals.

600-06 Strengthen the Employment and Training Requirements for Food Stamp Recipients

	Savings (Millions of dollars) Budget Authority	Outlays
2002	30	30
2003	30	30
2004	30	30
2005	30	30
2006	35	35
2002-2006	155	155
2002-2011	340	340

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-05

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) is intended to encourage people to work or pursue job training. Thus, the law restricts Food Stamp eligibility to a maximum of three months in any 36-month period for able-bodied adults not engaged in work or training who are 18 to 50 years of age and have no dependent children—unless the Secretary of Agriculture has waived the work/training requirement for their locale. Under the Balanced Budget Act of 1997 (BBA), however, states may exempt up to 15 percent of such able-bodied Food Stamp recipients from the requirement.

This option would eliminate the 15 percent exemption to the PRWORA work/training requirement. That change would reduce outlays by $30 million in 2002 and $340 million over the 2002-2011 period.

The BBA exemption allows states to use different Food Stamp eligibility rules for different childless adults. Eliminating the exemption would require states to use the same eligibility criteria for all 18- to 50-year-old able-bodied people with no dependent children who live in a particular area. An argument against this option is that the exemption provides a safety net for a needy population that can be difficult to serve.

600-07 Reduce the $20 Unearned Income Exclusion Under the Supplemental Security Income Program

	Savings (Millions of dollars) Budget Authority	Outlays
2002	90	90
2003	120	120
2004	120	120
2005	135	135
2006	125	125
2002-2006	590	590
2002-2011	1,235	1,235

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-08

The Supplemental Security Income (SSI) program provides federally funded monthly cash payments—based on uniform, nationwide eligibility rules—to low-income elderly and disabled people. In addition, most states provide supplemental payments. Because SSI is a means-tested program, recipients' outside income reduces their SSI benefits, subject to certain exclusions. For unearned income (most of which is Social Security), $20 a month is excluded; benefits are reduced dollar for dollar for unearned income above that amount. The program allows a more liberal exclusion for earned income to maintain incentives for recipients to work.

This option would reduce the monthly $20 unearned income exclusion to $15. That reduction would save $90 million in 2002 and $1.2 billion over the 2002-2011 period.

A program that ensures a minimum living standard for its recipients need not provide a higher standard for people who happen to have unearned income. Nevertheless, reducing the monthly $20 exclusion by $5 would decrease by as much as $60 a year the income of the roughly 2.5 million low-income people (approximately 40 percent of all federal SSI recipients) who would otherwise benefit from the exclusion in 2002. Even with the full $20 exclusion, the income of most SSI recipients falls below the poverty threshold.

600-08 Create a Sliding Scale for Children's SSI Benefits Based on the Number of Recipients in a Family

	Savings (Millions of dollars) Budget Authority	Outlays
2002	0	0
2003	70	70
2004	145	145
2005	170	170
2006	165	165
2002-2006	550	550
2002-2011	1,510	1,510

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-07

The Supplemental Security Income (SSI) program provides federally funded cash payments—based on uniform, nationwide eligibility rules—to elderly and disabled people with low income. In addition, most states provide supplemental payments to SSI recipients. In 2000, children received approximately $5.5 billion in federal SSI benefits, accounting for almost one-sixth of federal SSI benefits paid that year.

Unlike other means-tested benefits, the SSI payment for an additional child does not decline as the number of SSI recipients in a family increases. In 2001, a family with one child qualifying for SSI benefits could receive up to $530 a month, or $6,360 a year, if the family's income (excluding SSI benefits) was under the cap for the maximum benefit. If the family had additional eligible children, it could receive another $530 a month for each one. (A child's benefit is based only on the presence of a severe disability and the family's income and resources, not on the nature of the qualifying disability or on participation by other family members in the SSI program.)

This option would create a sliding scale for SSI disability benefits so that a family would receive smaller benefits per child as the number of children receiving SSI increased. The sliding scale used in this option was recommended by the National Commission on Childhood Disability in 1995. It would keep the maximum benefit for one child as it is in current law but reduce additional benefits for additional recipient children in the same family. If that sliding scale was in place in 2001, the first child in a family qualifying for the maximum benefit would receive $530, the second child would receive $302 (43 percent less), and the third would receive $273 (48 percent less). Benefits would continue to decrease for additional children. About 90 percent of child recipients would be unaffected by the new scale, and the remaining 10 percent would have their benefits reduced by about one-fourth, on average. As with current SSI benefits, the sliding scale would be adjusted each year to reflect changes in the consumer price index.

This option assumes that the change would not be implemented until 2003 because the Social Security Administration does not maintain data on multiple SSI recipients in a family, so implementing the sliding scale would require significant effort on the agency’s part. Savings from this option would total $70 million in 2003 and $1.5 billion over the 2003-2011 period.

Proponents of a sliding scale argue that the reductions in benefits it would produce reflect economies of scale that generally affect the cost of living for families with more than one child. Moreover, the high medical costs that disabled children often incur, which would not be subject to economies of scale, would continue to be covered because SSI participants generally are covered by Medicaid.

Opponents of this option could argue that children with disabilities sometimes have unique needs that may not be covered by Medicaid, including modifications to their housing and specialized equipment. With lower SSI benefits, some families might be unable to meet such needs.

600-09 Reduce the Federal Matching Rate for Administrative Costs in the Child Support Enforcement Program

	Savings (Millions of dollars) Budget Authority	Outlays
2002	1,140	1,140
2003	1,230	1,230
2004	1,310	1,310
2005	1,390	1,390
2006	1,480	1,480
2002-2006	6,550	6,550
2002-2011	15,410	15,410

SPENDING CATEGORY:

Mandatory

The Child Support Enforcement (CSE) program assists states in their effort to improve the payment of child support by noncustodial parents. The federal government pays 66 percent of the program's administrative costs, provides incentive payments, and allows states to retain some of the money they collect.

This option would reduce the federal share of administrative costs from 66 percent to 50 percent. That change in the federal matching rate could save $1.1 billion in 2002 and $15.4 billion through 2011.

Several arguments can be made for shifting greater responsibility for CSE's administrative costs to the states. For one thing, such a shift would encourage states to make their child support enforcement efforts more efficient because they would be paying a larger share of the costs. It would also bring the federal share of CSE's administrative costs more in line with the share of such costs that the federal government bears in comparable programs.

Lowering the matching rate would entail some risks, however. The number of cases in which states retain a portion of child support collections has decreased in recent years, which has threatened the program's total collections. A lower federal matching rate for administrative costs would threaten states' finances, possibly leading them to reduce child support enforcement services. Any cut in those services could result in a drop in collections and higher costs for Temporary Assistance for Needy Families (TANF), because collections of child support partly offset payments of TANF benefits. States might respond to their greater share of administrative costs by reducing their benefits and services for needy families.

Under the Unfunded Mandates Reform Act of 1995, reductions in federal funding for certain entitlement grant programs—including the Child Support Enforcement program—are considered mandates on state governments if the states lack authority to amend their programmatic or financial responsibilities to offset the loss of funding. Because some states may not have sufficient flexibility within the CSE program to make such changes, this option could constitute an unfunded mandate on those jurisdictions under that law.

600-10 Reduce TANF Block Grants to States

	Savings (Millions of dollars) Budget Authority	Outlays
2002	0	0
2003	814	110
2004	809	195
2005	794	430
2006	769	785
2002-2006	3,188	1,520
2002-2011	6,985	6,045

SPENDING CATEGORY:

Mandatory

Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the federal government provides block grants to states for Temporary Assistance for Needy Families (TANF). The amounts of the block grants are based on spending levels for three programs that PRWORA repealed and TANF replaces: Aid to Families with Dependent Children (AFDC), Emergency Assistance for Needy Families, and the Job Opportunities and Basic Skills, or JOBS, training program. To receive TANF funds, a state must spend from its own funds a predetermined "maintenance-of-effort" amount based on its pre-TANF spending. In addition, the state must maintain minimum work participation rates for recipient families, require parents and caretaker recipients to engage in work activities after receiving no more than 24 months of TANF benefits (with some exemptions), and impose a five-year limit on receipt of federally funded TANF benefits. The Congress has authorized $16.5 billion annually for TANF through 2002. The Congressional Budget Office assumes in its baseline that the program will be reauthorized and that similar funds will be available for 2003 and thereafter.

This option would reduce the TANF block grants to states by 5 percent after reauthorization. That reduction would reduce budget authority by $814 million in 2003 and outlays by $110 million. Over the 2003-2011 period, budget authority would decline by $7 billion and outlays by $6 billion. Budget authority would fall by less than the full 5 percent reduction in the TANF block grants because spending for Food Stamps would increase when TANF benefits were reduced. Outlays would initially fall by less than the reduction in budget authority because caseloads in the AFDC and TANF programs have declined significantly over the past seven years and many states have been accumulating TANF budget authority from their current annual block grants. The cut in budget authority would result in lower outlays only after a state had depleted its accumulated budget authority.

An argument for reducing the TANF block grants is that most states need much less money for their programs than legislators expected when PRWORA was enacted. An argument against the cut is that it would reduce federal spending in several states that have been exhausting their TANF block grants, which could cause those states to cut their TANF benefits and services.

600-11-A Defer Cost-of-Living Adjustments for Annuitants of the Civil Service Retirement System

	Savings (Millions of dollars) Budget Authority	Outlays
2002	385	385
2003	565	565
2004	500	500
2005	605	605
2006	765	765
2002-2006	2,820	2,820
2002-2011	9,405	9,405

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-11-B, 600-11-C, 600-12, 600-13, and 600-14

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Federal civilian retirement programs cover about 2.7 million active employees and 2.4 million retirees and survivors. Federal civilian pension payments totaled $45 billion in 2000. Civilian workers covered by the Civil Service Retirement System (CSRS), which applies to most civilian employees hired before January 1, 1984, receive full cost-of-living-adjustments (COLAs). Civilian employees hired after that date receive less generous protection from inflation. Employees covered by the post-1983 civilian plan, the Federal Employees Retirement System (FERS), receive a so-called diet-COLA, generally 1 percentage point less than inflation. Moreover, COLAs are generally paid only to FERS retirees who are age 62 or older.

This option and options 600-11-B and 600-11-C illustrate three basic approaches to reducing the cost of COLAs: deferring adjustments for inflation, limiting the size of those adjustments, and reducing adjustments for middle- and high-income retirees. All three options would still give federal retirees better protection against inflation than most private-sector pensions give their retirees. However, as with any cut in benefits, those reductions could make recruitment and retention harder for federal civilian agencies.

Deferring COLAs under CSRS until age 62 for all nondisabled civilian employees who retired before that age would yield savings in direct spending of $385 million in 2002, $2.8 billion over five years, and $9.4 billion over 10 years. Consistent with coverage for some personnel in the military retirement system, this option would allow a one-time catch-up adjustment at age 62, increasing pensions to the amount that would have been payable had full COLAs been in effect. Under the approach of deferring COLAs, a CSRS-covered annuitant retiring at age 55 with an average annuity of $25,000 in 2002 would lose $18,700 over seven years.

Deferring COLAs would align practices for CSRS with those for FERS and encourage federal employees to work longer. A major disadvantage of this option is that for current retirees or those nearing retirement, it could be regarded as a revocation of earned retirement benefits. In addition, although CSRS benefits are more generous than the total package of benefits typically offered by private employers, they fall short of those offered by many large private firms, which compete directly with the federal government in labor markets. Moreover, because CSRS benefits are already less generous than those available under FERS (including Social Security and the Thrift Savings Plan), this option would worsen the disparity between the government's civilian retirement plans.

600-11-B Limit Some Cost-of-Living Adjustments for Federal Retirees

	Savings (Millions of dollars) Budget Authority	Outlays
2002	200	200
2003	400	400
2004	640	640
2005	885	885
2006	1,025	1,025
2002-2006	3,150	3,150
2002-2011	12,140	12,140

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-11-A, 600-11-C, 600-12, 600-13, and 600-14

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Annuitants under the Civil Service Retirement System (CSRS) receive annual cost-of-living adjustments (COLAs) that offer 100 percent protection against inflation. Annuitants under the Federal Employees Retirement System (FERS) receive full protection only when the annual rate of inflation is less than 2 percent. If inflation in a year is between 2 percent and 3 percent, FERS annuitants receive COLAs of 2 percent. If inflation is over 3 percent, the adjustment is the increase in inflation minus 1 percentage point.

This option would limit COLAs for CSRS annuitants to half a percentage point below inflation. Moreover, when inflation fell below 3 percent, FERS retirees would receive a COLA equaling the rate of inflation minus a percentage point. The 0.5 percentage-point reduction for CSRS retirees would produce a cut roughly comparable with the 1 percentage-point limit for FERS enrollees, who are also covered by Social Security.

Savings in direct spending for civilian pensions would amount to $200 million in 2002, $3.2 billion over five years, and $12.1 billion over 10 years. Over five years, the average CSRS retiree would lose $1,800. (Savings from this option would fall by $495 million over five years if it was coupled with option 600-11-A, which would defer COLAs until age 62 for CSRS workers.) The Congress could also consider limiting COLAs only for the FERS plan, which is more generous once Social Security and Thrift Savings Plan benefits are factored in.

The main argument for this approach, as with the other options for COLAs, is that protection by COLAs under federal pension plans exceeds that offered by most private pension plans. COLAs are becoming less prevalent in the private sector. According to a 1999 survey, fewer than 10 percent of private-sector retirement plans offered annuitants any automatic protection against inflation.

The main argument against cutting any retirement benefit is that such an action hurts both retirees and the government's ability to recruit a quality workforce. Advocates for federal workers argue that although certain provisions of federal retirement plans are generous, total compensation should be the basis of comparison between federal and private-sector employment. Annual surveys indicate that federal workers may be accepting salaries below private-sector rates for comparable jobs in exchange for better retirement provisions. In essence, workers pay for their more generous retirement benefits by accepting lower wages during their working years. This option, however, would hurt those retirees most dependent on their pensions. It would also renege on an understanding that workers covered under CSRS who passed up the chance to switch to FERS would retain their full protection against inflation. Finally, advocates for federal workers note that some protection from inflation for federal retirees has already been restricted. The General Accounting Office calculated that delays and reductions in COLAs from 1985 through 1994 effectively reduced them to about 80 percent of inflation.

600-11-C Reduce Cost-of-Living Adjustments for Middle- and High-Income Federal Retirees

	Savings (Millions of dollars) Budget Authority	Outlays
2002	280	280
2003	675	675
2004	1,080	1,080
2005	1,465	1,465
2006	1,855	1,855
2002-2006	5,355	5,355
2002-2011	20,940	20,940

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-11-A, 600-11-B, 600-12, 600-13, and 600-14

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

An alternative to the two previous options would tie reductions in the cost-of-living adjustment (COLA) to federal retirees' benefit levels. For example, the full COLA could be awarded only on the first $730 of a retiree's monthly benefit; a COLA of half that could be given on the remainder. The average pension for a federal civilian retiree was $1,960 a month in 2000. The threshold of $730 per month is about equal to the projected poverty level for an elderly person in 2001 and could be indexed to inflation to maintain its value over time. Similar proposals have been considered for Social Security.

This approach would save about $280 million in direct spending for civilian pensions in 2002, $5.4 billion over the 2002-2006 period, and $20.9 billion over 10 years. The average retiree under the Civil Service Retirement System (CSRS) who was affected by the cut would lose $3,300 over five years. Because the full COLA would be paid only to beneficiaries with small annuities, this option would better focus COLAs on retirees who had the greatest need for protection from inflation. Retirees receiving Federal Employees Retirement System (FERS) benefits already get a reduced COLA, so this change would have less effect on them than on retirees receiving CSRS benefits. As a result, the option would widen the existing gap between the total benefits provided by FERS (including Social Security and the Thrift Savings Plan) and those provided by CSRS (which offers only a basic benefit), making FERS even more generous relative to CSRS than it had been in the past.

The disadvantage of this option is that it would reduce the ability of the federal government to hire and retain middle- and upper-level managers and professionals. In addition, restricting COLAs would undercut a major strength of the federal retirement system—its ability to offer indexed pensions. Fully indexed benefits provide insurance against inflation, which generally is not offered in the private sector. Furthermore, many people object to any reductions in earned retirement benefits. They also point out that federal pensions are fully taxable under the individual income tax in the same proportion that they exceed the contributions that employees made during their working years. Moreover, because pension benefit levels are not always reliable indicators of total income, critics of this option point out that it may not be possible to apply the option fairly.

600-12 Modify the Salary Used to Set Federal Pensions

	Savings (Millions of dollars) Budget Authority	Outlays
2002	45	45
2003	100	100
2004	155	155
2005	225	225
2006	285	285
2002-2006	810	810
2002-2011	3,195	3,195

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-11-A, 600-11-B, 600-11-C, 600-13, and 600-14

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Both of the government's major retirement plans for civilian employees, the Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS), provide initial benefits based on the average salary for an employee's three consecutive highest-earning years. If a four-year average was adopted for people who retire under FERS and CSRS after September 30, 2001, initial pensions would be about 1.5 percent to 2 percent smaller for most new civilian retirees. In 2002, savings to the government in direct spending for civilian pensions would be $45 million; those savings would total $810 million over five years and $3.2 billion over 10 years.

This option would align federal practices more closely with those in the private sector, which commonly uses five-year averages. The change in figuring the base salary would encourage some employees to remain on the job longer in order to boost their pensions to reflect the higher salaries they receive with more years on the job. That incentive could help the government keep experienced people, but it could hinder efforts to reduce federal employment and promote the hiring of entry-level workers.

The major drawback to the option is that it would cut benefits and consequently reduce the attractiveness of the government's civilian compensation package. In the last legislative session, the Congress took several actions to improve that compensation package, including rolling back required contributions by federal employees to their retirement plans.

Under this option, FERS benefits (which include Social Security and the Thrift Savings Plan) would remain more generous than those offered by large private firms, but CSRS benefits (which do not include Social Security and the Thrift Savings Plan) would fall below those received by many retirees from the private sector. The average new CSRS retiree would lose $625 in 2002 and $3,300 over five years, whereas the average new FERS retiree would lose $200 in 2002 and just $1,075 over five years because of the smaller defined benefit under that system.

600-13 Restrict the Government's Matching Contributions to the Thrift Savings Plan

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	760	760
2003	795	795
2004	830	830
2005	870	870
2006	905	905
2002-2006	4,160	4,160
2002-2011	9,240	9,240
Relative to Inflated Appropriations		
2002	790	790
2003	865	865
2004	945	945
2005	1,025	1,025
2006	1,110	1,110
2002-2006	4,735	4,735
2002-2011	11,675	11,675

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

600-11-A, 600-11-B, 600-11-C, 600-12, and 600-14

RELATED CBO PUBLICATIONS:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Comparing Federal Salaries with Those in the Private Sector (Memorandum), July 1997.

The Thrift Savings Plan (TSP) for federal civilian employees is a defined contribution pension plan similar to the 401(k) plans that many private employers offer. Federal agencies automatically contribute to the TSP an amount equal to 1 percent of individuals' earnings for all of the 1.5 million workers covered by the Federal Employees Retirement System (FERS). In addition, the employing agencies match voluntary deposits by workers dollar for dollar on the first 3 percent of their pay and 50 cents for each dollar on the next 2 percent. The total federal contribution is 5 percent of employees' pay for those who also put aside 5 percent. Workers covered by the Civil Service Retirement System (CSRS), which applies to most civilian federal employees hired before January 1, 1984, currently can contribute 5 percent of their pay to the TSP, but agencies contribute nothing on behalf of those employees.

If the government limited its matching contributions to a uniform rate of 50 percent on the first 5 percent of pay, its maximum contribution would fall to 3.5 percent of pay. Implementing this option would save $9.2 billion over the 2002-2011 period relative to current appropriations and $11.7 billion relative to current appropriations adjusted for inflation. (The estimates exclude savings realized by the Postal Service even though its workers participate in CSRS and FERS, because reductions in its operating costs eventually benefit only mail users.) Assuming that agencies continued the automatic 1 percent contribution, this arrangement would remain more generous than the defined contribution pension plans that are typically offered in the private sector.

Limiting the matching contributions would reduce the disparity between the government's two major retirement systems. Benefits under FERS—which include Social Security and the TSP—are currently more generous than those under the older CSRS for most participants. Yet restricting the matching contributions would have several drawbacks. Middle- and upper-income employees rely on the government's contributions to maintain their standard of living during retirement because Social Security replaces a smaller portion of their income than it does for lower-income employees. Part of the TSP's appeal derives from its individual accounts for each participant, which enjoy some protection from cuts imposed by subsequent changes in law. The security and portability of the TSP were major factors in the decision of many employees to switch from CSRS to FERS, because the TSP compensated for a less generous defined benefit plan. Changing the TSP's provisions would be unfair to that group, whose decision to switch plans reasonably assumed that changes would not be made. Opponents of restricting the matching rate also argue that doing so would diminish employees' savings for retirement, a problem that would be intensified if the cut reduced participation in the TSP. Research shows, however, that private-sector employees' contributions to their 401(k) plans tend to be responsive to employers' offer of matching contributions but not to the size of the match.

600-14 Restructure the Government's Matching Contributions to the Thrift Savings Plan

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	325	325
2003	345	345
2004	360	360
2005	375	375
2006	390	390
2002-2006	1,795	1,795
2002-2011	3,980	3,980
Relative to Inflated Appropriations		
2002	340	340
2003	370	370
2004	405	405
2005	440	440
2006	475	475
2002-2006	2,030	2,030
2002-2011	5,020	5,020

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

600-11-A, 600-11-B, 600-11-C, 600-12, and 600-13

RELATED CBO PUBLICATIONS:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Comparing Federal Salaries with Those in the Private Sector (Memorandum), July 1997.

Most federal workers covered by the Federal Employees Retirement System (FERS) currently can contribute up to 10 percent of their salary into the Thrift Savings Plan (TSP), which is similar to a 401(k) plan. However, employees can receive the highest contribution the government is willing to make to the TSP (an amount equal to 5 percent of their pay) by contributing only 5 percent of their earnings. Restructuring the government's contribution schedule so that the government made the full 5 percent contribution only when employees contributed 10 percent would save, over the 2002-2011 period, $4.0 billion relative to current appropriations and $5.0 billion relative to current appropriations adjusted for inflation.

At present, federal agencies automatically contribute an amount equal to 1 percent of salaries into the TSP for their FERS employees. In addition, employing agencies match the first 3 percent of workers' voluntary contributions dollar for dollar and the next 2 percent at 50 cents on the dollar. Employees may contribute another 5 percent of pay but get no matching contribution. The 10 percent limit on contributions will increase over the next several years.

This option would spread the government's total 5 percent contribution over a 10 percent contribution by employees. It would do so by matching voluntary contributions ranging from 1 percent up to 6 percent at the rate of 50 cents per dollar (for a maximum 3 percent match), and those ranging from 7 percent to 10 percent at 25 cents per dollar (for a maximum 1 percent match). The government would continue to automatically contribute an amount equal to 1 percent of employees' earnings.

Changing the government's matching schedule would bring the government's practices more in line with those of defined contribution plans in the private sector, which usually provide less generous matching contributions and no automatic contributions. According to the Bureau of Labor Statistics, the most prevalent practice among medium and large private firms is to match employees' contributions up to 6 percent of pay at 50 cents on the dollar. Some federal employees, especially those currently contributing 5 percent of pay, would have an incentive to contribute more to the TSP and as a result would have more savings available to them when they retired. Further, restructuring matching contributions might reduce the disparity between the government's two major retirement systems. Benefits under FERS—which include Social Security and the TSP—are currently higher and cost the government more than those under the older Civil Service Retirement System for most participants.

This option has several drawbacks, however. First, a lower government match on smaller contributions may reduce the retirement resources of some employees by weakening their incentive to contribute. Second, the government may achieve its savings at the expense of employees who are least likely to contribute a higher percentage of earnings into the TSP—namely, young workers and others with relatively low earnings. Third, changing the TSP may be considered unfair because many people accepted employment with the government or switched from the Civil Service Retirement System to FERS assuming that TSP benefits would not change.